

Message Text

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ACTION SS-20

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07

H-03 L-03 NSC-07 PA-04 PRS-01 USIA-15 CEA-02 STR-08

AGR-20 IGA-02 IO-14 ABF-01 SSO-00 DRC-01 /195 W

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P 130923Z MAR 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 3748

C O N F I D E N T I A L ISLAMABAD 2471

FOR THE SECRETARY FROM BYROADE

E.O. 11652: GDS

TAGS:

SUBJ: ECONOMIC ASSISTANCE PROGRAM FOR FY 1974

1. BEGIN SUMMARY. I HAVE BEEN REVIEWING WITH MY STAFF THE OVERALL ASSISTANCE PICTURE FOR PAKISTAN AND IT LOOKS PRETTY BAD. ACTION RECOMMENDED: THAT WE PLAN A SERIES OF POSITIVE STEPS OUTLINED IN PARA 6 TO PROVIDE FOR A MORE SUPPORTIVE ASSISTANCE EFFORT IN PAKISTAN. END SUMMARY.

2. AS I UNDERSTAND THE STATE OF PLAY, THE REGULAR AID PROGRAM FOR FY 1974 HAS BEEN TENTATIVELY ESTABLISHED AT \$8 MILLION COMPARED WITH THE CONGRESSIONAL REQUEST OF \$60 MILLION. MEANWHILE THE PROPOSED \$95 MILLION FOR FLOOD REHABILITATION HAS BECOME FIRST \$85 MILLION AND NOW \$50 MILLION WITH NO CERTAINTY THAT THIS LEVEL CAN BE MAINTAINED IN THE CONGRESSIONAL PROCESS. PRESUMABLY IF \$50 MILLION OR LESS IS MADE AVAILABLE FOR FLOOD REHABILITATION, THERE WILL BE A NEW LOOK AT THE \$8 MILLION FIGURE.

3. ON THE PL-480 SIDE, WE HAVE SIGNED AN AGREEMENT FOR
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40,000 TONS OF VEGOIL BUT THE U.S. SUPPLY SITUATION HAS BEEN

TIGHT AND PA'S HAVE NOT BEEN ISSUED. I ALSO UNDERSTAND THAT WHEN THIS OIL IS BOUGHT, THE FUNDS IN OUR AGREEMENT ARE PROBABLY ENOUGH FOR ONLY 25,000 TONS. MEANWHILE PAKISTAN HAS ALREADY PROCURED \$70 MILLION WORTH OF VEGETABLE OIL ON THEIR OWN ACCOUNT AND SEEMS TO BE LINING UP EXPENSIVE U.S. BANK MONEY FOR ADDITIONAL PURCHASES SINCE THEY CONSIDER THIS COMMODITY ESSENTIAL FROM A POLITICAL POINT OF VIEW. ALSO ON THE PL-480 SIDE, IN VIEW OF FY 1975 PROSPECTS WE HAVE ALREADY HAD TO INFORMALLY INDICATE THAT ANY PL-480 WHEAT IN FY 1975 IS VIRTUALLY OUT OF THE QUESTION. PAKISTAN IS APPARENTLY BUDGETING FOR 500,000 TONS OF COMMERCIAL PURCHASES FOR FY 1975. THEY THINK THEIR 8.0 - 8.5 MILLION TON CROP SOON TO BE HARVESTED WILL STILL LEAVE THEM SHORT BY THIS AMOUNT.

4. MEANWHILE ON THE DEBT FRONT, WE HAVE NOT YET SIGNED OUR SHORT-TERM DEBT POSTPONEMENT AGREED LAST SPRING, ALTHOUGH THIS IS APPARENTLY NOT MUCH OF AN ISSUE AND SHOULD BE SIGNED IN THE NEXT FEW WEEKS. THE WORLD BANK REPORT ON LONG-TERM DEBT IS DEEPLY DISTURBING TO THE PAKISTANIS FOR REASONS WHICH THIS MISSION UNDERSTANDS SINCE OUR OWN FEELING IS THAT IT IS AN EXTREMELY POOR REPORT. IT DOESN'T SEEM TO TAKE INTO ACCOUNT UNDERSTANDINGS REACHED WITH PRESIDENT MCNAMARA LAST YEAR WHEN PAKISTAN IMPLICITLY AGREED TO PICK UP LEGAL RESPONSIBILITY FOR QUOTE NON-VISIBLE UNQUOTE PROJECT DEBTS RELATED TO EAST PAKISTAN. THIS AMOUNTS TO SOME 600 OR 700 MILLION DOLLARS COMPARED TITH THE WORLD BANK STAFF PROPLSAL TO POSTPONE PAYMENTS DUE OVER THE NEXT FEW YEARS ON \$360 MILLION.

5. FROM AN OVERALL BALANCE OF PAYMENTS POINT OF VIEW, PAKISTAN HAS BEEN EXPERIENCING A GOOD YEAR ON EXPORTS BUT THE PRICE OF IMPORTS HAS SKYROCKETED. THE INCREASES ARE BY NO MEANS LIMITED TO THE PRICE OF OIL. PAKISTAN IS VERY ACTIVELY SEEKING RELIEF FROM THE OIL PRODUCERS AND MADE THIS AN IMPORTANT PART OF THE ISLAMIC SUMMIT STRATEGY. WE THINK PAKISTAN IS DOING ABOUT AS WELL AS IT CAN ON THIS SCORE BUT WE ARE SOMEWHAT SKEPTICAL ABOUT HOW FAST OIL PRODUCER AID FLOWS WILL ACTUALLY BEGIN TO MOVE IN SUBSTANTIAL QUANTITIES.

6. IF I WERE THE PRIME MINISTER, I WOULD BE WONDERING HOW
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SUPPORTIVE OF PAKISTAN THE U.S. REALLY INTENDS TO BE AFTER THE POSITIVE WORDS AT THE TIME OF HIS VISIT TO THE UNITED STATES LAST SEPTEMBER. IN FACT, I SUSPECT HE WILL BE TALKING TO ME IN THE NEXT FEW WEEKS ALONG THESE LINES. IN ANTICIPATION OF THIS, I SUGGEST THE FOLLOWING ACTIONS. (A) ONCE THE LEGISLATIVE SITUATION CLEARS UP ON THE FLOOD REHABILITATION, MAKE A PROMPT DECISION TO PROGRAM REGULAR AID FUNDS FOR PAKISTAN AND IN THIS WAY PROVIDE A REASONABLE LEVEL OF COMMODITY LOAN FUNDS - AS

CLOSE AS POSSIBLE TO THE \$40 MILLION CONTAINED IN THE \$85 MILLION PACKAGE. (B) ISSUE THE VEGOIL PA'S JUST AS SOON AS POSSIBLE AND KEEP THE DOOR OPEN TO INCREASING VEGOIL FUNDS SO THAT PAKISTAN CAN PURCHASE THE 40,000 TONS WE EARLIER HOPED OUR FUNDS WOULD COVER. (C) TAKE A VIGOROUS STAND IN THE PAKISTAN CONSORTIUM IN FAVOR OF A SUBSTANTIAL IMPROVEMENT IN THE DEBT PASKAGE TENTATIVELY PROPOSED BY THE WORLD BANK. (A) AND (B) ARE IMPORTANT BUT (C) IS FUNDAMENTAL IN VIEW OF THE PRESIDENT'S ASSURANCES LAST SEPTEMBER THAT WE WOULD BE SUPPORTIVE ON THE LONG-TERM DEBT ISSUE.
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